

## Message Text

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ACTION EB-08

INFO OCT-01 AF-10 EUR-12 ISO-00 COME-00 CIAE-00 INR-10  
NSAE-00 GSA-02 TRSE-00 AID-05 OMB-01 DOE-15 SOE-02  
OES-09 NRC-05 INT-05 /085 W  
-----072620 181624Z /45

R 181449Z JUL 78  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 8235  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY KINSHASA  
AMEMBASSY LUSAKA  
AMCONSUL LUBUMBASHI

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 11326

E.O. 11652: GDS  
TAGS: EMIN, ETRD, UK, CG  
SUBJECT: COBALT: UPDATE ON UK SITUATION

REF: (A) LONDON 8642, (B) LONDON 9270, (C) LONDON 9354,  
(D) STATE 145925, (E) STATE 170626,  
(F) STATE 171040, (G) BRUSSELS 13340,  
(H) BRUSSELS 13713, (I) LUBUMBASHI 818,  
(J) LUBUMBASHI 810, (K) LUBUMBASHI 822,  
(L) LUBUMBASHI 842

1. EMBASSY COMMODITIES OFFICER UNDERTOOK FURTHER DIS-  
CUSSIONS WITH UK MINISTRY OF INDUSTRY (MOI) COBALT  
EXPERT GLADWELL, DRAWING ON QUESTIONS RAISED IN REFTELS  
(D) AND (E) AND INFORMATION SUPPLIED IN OTHER REFERENCES.  
MORE DISCREET QUERIES WERE ALSO MADE AMONG UK METALS  
TRADERS.

2. THE LONDON PICTURE, AS PAINTED BY MINISTRY OFFICIALS  
AND TRADE SOURCES, LACKS THE DEFINITION CONSULATE  
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LUBUMBASHI REPORTING PROVIDES. LITTLE OFFICIAL OR  
UNOFFICIAL INFORMATION ON THE COBALT SITUATION IS  
FILTERING OUT OF SHABA TO UK OFFICIALS IN KINSHASA OR TO  
LONDON METAL EXCHANGE (LME) SOURCES. OFFICIALS FORESEE  
PROBLEMS IN THE COPPER-COBALT OPERATIONS IN SHABA  
BEGINNING IN LATE AUGUST AS REPAIR EFFORTS ARE NEEDED ON  
MACHINERY. WHILE THE BRITISH VIEW THE SECURITY SITUA-

TION AS BEING OF PARAMOUNT IMPORTANCE IN RESTORING PRODUCTION, THE TRADE IN GENERAL TENDS TO BE QUERULOUS ON ALL ASPECTS OF THE COPPER-COBALT SITUATION.

3. PRICES. COBALT PRICES ON THE FREE MARKET ARE NOW \$33 A POUND FOR BROKEN CATHODE AT ROTTERDAM WAREHOUSES. THERE ARE NOT MANY TRANSACTIONS. MUCH OF THE LONDON ATTENTION IS NOW FOCUSSED ON ZAMBIA AND THE RECENT ACTION (JULY 14) BY MEMACO, THE ZAMBIAN STATE METAL MARKETING ORGANIZATION RAISING THE ROKANA BRAND COBALT CATHODE PRICE TO \$12.50 PER LB. THE TRADE SEES THE MARKET AS VERY BULLISH, BASED ON THE FEELING THAT A SHORTAGE WILL FOLLOW LATER THIS YEAR. IT IS EXPECTED THAT SOZACOM WILL SOON FALL INTO LINE WITH THE MEMACO ACTION. TRADE SENTIMENT IS HOWEVER BASED ON LIMITED INFORMATION FROM ZAIRE AND A DISTINCTLY DIFFERENT PICTURE FROM THAT DESCRIBED IN REFTELS (I)-(L). QUOTES FROM THE LONDON METAL BULLETIN OF JULY 11 AND JULY 18 INDICATE THE LME SENTIMENT:QUOTE IT IS NOW GENERALLY ACCEPTED IN THE TRADE THAT THE MINE PRODUCTION FACILITIES THERE WERE VERY LARGELY PUT OUT OF ORDER DURING THE FIGHTING AND THAT ACTUAL PRODUCTION OF ORE AND METAL HAS BEEN DRASTICALLY REDUCED. DESPITE STATEMENTS TO THE CONTRARY FROM THE ZAIRE GOVERNMENT, IT NOW SEEMS CLEAR THAT PRODUCTION OF BOTH METALS IN THE AREA WAS BADLY AFFECTED BY THE RECENT FIGHTING THERE, AND THAT IT CONTINUES TO BE WELL BELOW

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WHAT HAD BEEN PREVIOUSLY PRODUCED. FREE MARKET PRICES OF \$50 BY THE END OF THE YEAR ARE FREELY ACCEPTED IN THE

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 11326

TRADER CIRCLES, WITH A SHRINKING AVAILABILITY OF THE METAL ON THE PRODUCER MARKET MAKING ITSELF FELT EVEN MORE IN THE FREE MARKET. UNQUOTE. THE MINISTRY OF INDUSTRY EXPECTS PRICES TO TOUCH \$40 PER LB. SOON ON THE THIN AND VOLATILE FREE MARKET.

4. SUPPLY. SOME ZAMBIAN COBALT IS ENTERING THE UK UNDER LONG TERM CONTRACT TO THE SIX LARGEST UK USERS. ALTHOUGH THE KOLWEZI SITUATION OVERSHADOWS ALL OTHERS, THERE IS A GENERAL FEELING THAT ZAMBIAN PRODUCTION COULD BE STEPPED UP. THE FOLLOWING RESERVE BREAKDOWN WAS SUPPLIED BY THE UK MOI: ZAIRE 450,000 TONS, SOVIET BLOC 320,000 TONS, NEW CALEDONIA 270,000 TONS, PHILIPPINES 190,000 TONS, ZAMBIA 110,000 TONS, AUSTRALIA 49,000 TONS.

5. UNILATERAL ACTIONS TO AMELIORATE SHORTAGES. UNTIL JULY 3, 1978 THE UK MONITORED AND CONTROLLED EXPORTS OF COBALT BEARING SCRAP. THE CONTROLS EXPIRED AT THAT TIME. CONFIDENTIAL

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THE MOI HOPES TO REINTRODUCE THE MONITORING AND CONTROL PROCEDURES FOR A WHILE LONGER TO HELP UK AND EC SCRAP USERS, BUT ACTIVITIES WOULD BE CONFINED TO UNWROUGHT SCRAP. THE MOI FEELS CONTROLS ON EXPORTS OF WROUGHT COBALT WOULD BE FAR MORE SEVERE. ACCORDING TO THE MOI, NO EC MEMBER STATE HAS SOUGHT CONSULTATIONS ON THE SITUATION OR ON POTENTIAL EXPORT CONTROL MEASURES. ALL EC MEMBER STATES MUST BE CONSULTED BEFORE ANY ONE MEMBER COULD TAKE SUCH ACTION EXCEPT IN A DIRE EMERGENCY. THE MOI SEES EVEN THE REQUEST FOR SUCH A MEASURE AS HAVING A SUBSTANTIAL MARKET IMPACT, PARTICULARLY ON THE FREE MARKET, AND THEREFORE DOES NOT LOOK FOR SUCH ACTIONS IN THE IMMEDIATE FUTURE, ALTHOUGH THE UK FOR ONE IS DOING SOME CONTINGENCY PLANNING IN THE EVENT A REAL SHORTAGE DEVELOPS IN THE FUTURE. THE NATURE OF CONTINGENCY PLANNING WAS NOT REVEALED.

BREWSTER

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## Message Attributes

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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014